Minicucci, Bob

From: Minicucci, Bob
Sent: Tuesday, June 12, 2007 3:07 PM
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Subject: NH DES ELI project: minutes of work group meeting 6/8/07

Hello -

Work group #4, Financial Sector was to meet on Friday June 8 at 2:00 PM at DES offices, 29 Hazen Drive, Concord, Room 114. It turned out to be not a group meeting but a one hour conversation between myself and Mr. Andre Tremblay, VP of Commercial Lending for TD Banknorth. This message serves to record & communicate that conversation. As usual, this record is subject to the review of the attendees. If I've mis-represented things, please let me know.

Mr. Tremblay works in commercial real estate lending. The interest of our program may be more in the bank's Commercial & Industrial (C&I) department, and he will speak to them. He had read our background material, so the conversation proceeded quickly.

The statement was made that banks in general don't lend to polluters and that if there is no evidence of pollution, compliance is assumed. The real estate end of the banking business does not seem to look into the details of what constitutes compliance; an organization's operations are not part of their purview.

We did discuss how superior environmental performance might play out in terms of real estate lending, using LEED certification as the primary example. The bankers' issue revolves around the difference between *value* and *cost*. The market sets the value, and federal guidelines (FIRREA, etc.) control what percentage of value the bank can lend up to. I was reminded that there have been some recent issues in the banking industry related to being too liberal with what loans are written, and apparently they can't, get into loaning above set percentages of established market value.

And LEED buildings have not yet established their value in this sense - is their re-sale value known to be higher, or do they predictably generate more rental income? This is not (yet?) known to be so. Many LEED buildings put up so far have been publicly owned, which do not sell (and thus generate market data an appraiser can use) but they do serve as examples to build social consciousness, and some building-cost information. Banks do not yet know if net income from a LEED building is higher than a non-LEED building.

We need to remember that development is a high-risk, high reward business, and "LEED" is still unusual. Two issues to consider here: risks are higher in commercial lending if only because these loans are not re-sold and pooled they way residential mortgages are, and that most banks are publicly owned and subject to shareholder pressures and the SEC reporting requirements.

The relevant trade association appears to be Risk Management Association, formerly known as the Robert Morris Assoc., http://www.rmahq.org/RMA/. I found mention there of chapters in New Bedford, MA ("New England Chapt.), and in Vermont & Maine.

Mr. Tremblay will bring our project to his colleagues in C&I and keep the conversation going. This meeting served to teach each other our concerns and constraints, and as such was very useful.

On Monday the 11th, I got this additional information from Mr. Tremblay:

Bob, good to meet with you Friday. Here's some info and thoughts:

- FIRREA is the Federal Institutions Reform, Recovery, and Enforcement Act of 1989. Basically tightened appraisal guidelines (de minimus thresholds) for banks and other federally regulated institutions.

- FIDICIA (Federal Deposit Insurance Corporation Improvement Act of 1991) further establishes appraisal standards.

Here's a few ideas we can discuss related to encouraging companies to comply with and exceed environmental laws:

1. State and/or federal guaranty program to guarantee the additional loan amount banks would lend on green buildings. That is, if a green building cost $100,000 more than a non-green building, and a bank loaned $100,000 more, the state or fed would provide a $100,000 guaranty.

2. State or fed tax credits to encourage green construction and to offset the cost of added company due diligence/management over and above law requirements.

3. Tax free bonds to fund added environmental costs over and above that required by law.

4. Local, state, and federal fast track of construction approvals for green buildings (including the DES!). This could save developers a lot of money.

5. Renewal energy certificates (REC's) like Connecticut.

We can further discuss there at our next meeting. Maybe we can come up with more ideas

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Thank you all,
Bob Minicucci
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